

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3964-01  
Bill No.: HB 1739  
Subject: Charities; Elementary and Secondary Education; Taxation and Revenue.  
Type: Original  
Date: February 25, 2002

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$214,140) to (\$20,214,140)	(\$153,439) to (\$20,153,439)	(\$157,370) to (\$20,157,370)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$214,140) to (\$20,214,140)</b>	<b>(\$153,439) to (\$20,153,439)</b>	<b>(\$157,370) to (\$20,157,370)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

**FISCAL ANALYSIS**

### ASSUMPTION

Officials from the **Department of Economic Development (DED)** state the bill requires DED to approve 501C(3) organizations as Scholarship charities and Educational charities, allocate credits to these entities, and approve tax credits of \$20 million per year. The credit is given to individuals and businesses that donate to the charities and they are allowed a 50% credit which can be carried forward 4 subsequent years if unused. DED is to establish a procedure to reallocate unused credits as well as a procedure to notify the general public of organizations that are approved as Scholarship charities. DED will have to audit the charities to insure that funds are used appropriately for scholarships and that they are not directed to the donors children.

DED assumes that \$20 million in credits would be issued each year. DED assumes the program would be located aligned with Community Development Programs. DED assumes one Business Information Program Coordinator (at \$47,100), two Community Development Representatives II (at \$36,012 each), one Economic Development Incentive Specialist II (at \$37,488) and one Clerk Typist II (at \$20,472) would be needed to administer the program and conduct audit activities. DED assumes the program would be a little larger than the NAP program that required 5 people to administer when started.

The Business Information Program Coordinator would manage and oversee the program as well as supervise the other employees. The CD Rep II's would talk to prospective organizations, develop forms, review applications for compliance with 501C (3) requirements, allocate credits and conduct other related administrative activities. The ED Incentive Spec. II would process tax credits and the Clerk Typist II would provide support services for the other 4 employees.

DED assumes the administrative cost of the program to be roughly \$330,000 per year, plus \$20,000,000 in utilized tax credits.

**Oversight** assumes DED could administer the new tax credit program with three FTE, a Community Development Rep.II, a Economic Development Incentive Specialist and a Clerk Typist II. If DED determines that these three FTE are not adequate, Oversight assumes DED can request additional FTE in the normal budgetary process.

Officials from the **Department of Revenue (DOR)** assume that the Department of Economic Development will approve and certify the credit to DOR. Therefore, the Division of Taxation will need one Tax Processing Tech I (each at \$21,192) in Personal Tax for every 10,000 credits received and for each 3,000 additional pieces of correspondence relating to this credit. Business Tax will need One

### ASSUMPTION (continued)

Tax Processing Tech I (at \$21,192) for every 3,680 claims received for this credit. The MINITS,

COINS and PC systems will need to be updated and it is estimated that it will take 1,384 hours of programming at a cost of \$46,170. State Data Center implementation costs will be \$9,007. DOR assumes the total costs to implement the tax credit program, including the three FTE and programming expenses would total \$168,000 in FY 2003, and roughly \$100,000 each year thereafter.

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DOR states because this tax legislation has a direct impact on the state budget, it has been agreed that the Office of Budget and Planning will estimate the revenue impact.

Based on a previous response to a similar proposal, **Oversight** has allowed the Department of Revenue, programming costs and State Data Center charges of \$55,177 in FY 2003. Oversight assumes the DOR could handle the provisions of this proposal with existing resources or request additional staff through the budget process.

Officials of the **Department of Elementary and Secondary Education (DES)** state this proposal authorizes a 50% state income tax credit for contributions to a scholarship charity. The cumulative amount of tax credits for this tax benefit shall not exceed \$20 million per fiscal year. The tax credits reduce the income tax receipts flowing to the general revenue fund. This proposal caps total credits at \$20 million per year; therefore, the maximum fiscal impact is \$20 million per year. DES assumes this bill would not fiscally impact their agency.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 8 new pages of regulations in the Code of State Regulations at a cost of \$27.00 per page, and 12 new pages in the Missouri Register at a cost of \$23.00 per page. Costs due to this proposal are estimated to be \$492, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal; however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

#### ASSUMPTION (continued)

**Oversight** has reflected the revenue impact of this proposal as a range of \$0 to (\$20,000,000) for the potential decrease in taxes collected. Since the credit is allowed for any tax year beginning

on or after January 1, 2002, Oversight assumes the tax credits will first occur in the tax filing season beginning January 1, 2003, which is FY 2003.

**This proposal could result in a decrease in Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<b>GENERAL REVENUE FUND</b>			
<u>Loss - General Revenue Fund</u>			
Income tax credits for charitable scholarships	\$0 to (\$20,000,000)	\$0 to (\$20,000,000)	\$0 to (\$20,000,000)
<u>Costs - Department of Economic Development (DED)</u>			
Personal Service (3 FTE)	(\$80,269)	(\$98,729)	(\$101,197)
Fringe Benefits	(\$28,905)	(\$35,552)	(\$36,441)
Expense and Equipment	(\$49,789)	(\$19,158)	(\$19,732)
<u>Total Costs - DED</u>	(\$158,963)	(\$153,439)	(\$157,370)
<u>Cost - Department of Revenue</u>			
Reprogramming costs	(\$55,177)	\$0	\$0
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$214,140) to (\$20,214,140)</u></b>	<b><u>(\$153,439 to \$20,153,439)</u></b>	<b><u>(\$157,370 to \$20,157,370)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent they would incur cost for making the voluntary cash contributions and receive benefit from the tax credit for making the contribution.

DESCRIPTION

RS:LR:OD (12/01)

This proposal authorizes an income tax credit for 50% of contributions to qualified educational and scholarship charities. Educational and scholarship charities are defined as charitable organizations that allocate at least 90% of their annual revenue for educational scholarships.

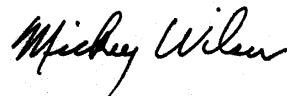
The tax credit is not refundable, but can be carried forward and claimed for up to four taxable years. The statewide maximum of tax credits that can be taken in any one year cannot exceed \$20 million. Ten million dollars are designated for educational charities and \$10 million for scholarship credits. The proposal provides for the Department of Economic Development to certify the charities and tax credits and to apportion the credits when the applications for the credits exceed the statewide cap.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

#### SOURCES OF INFORMATION

Department of Economic Development  
Department of Elementary and Secondary Education  
Department of Revenue  
Office of the Secretary of State

**NOT RESPONDING:**      **Office of Administration - Budget and Planning**



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